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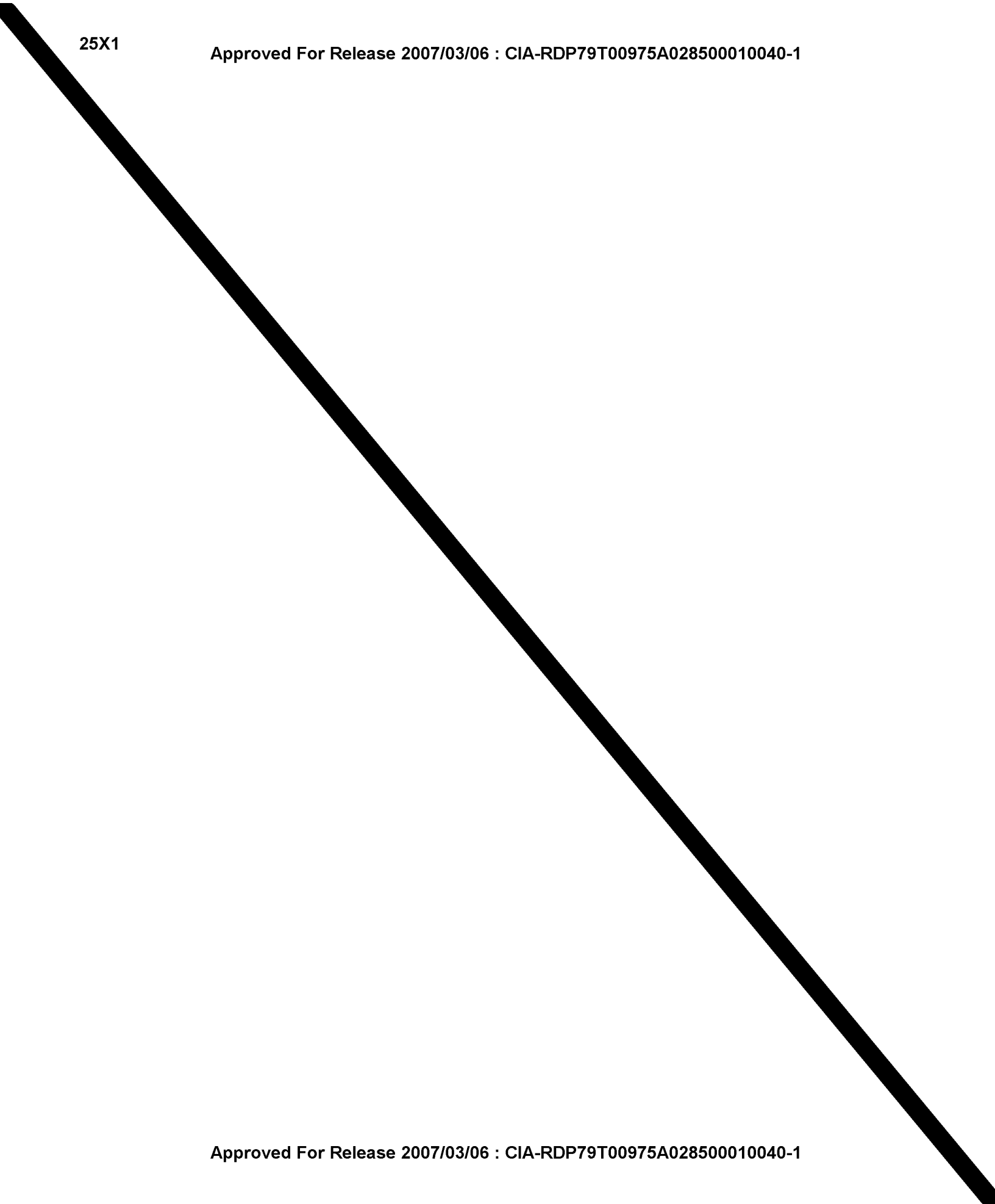

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USSR-LEBANON

The Soviets have probably welcomed the latest moves toward resolution of the Lebanese situation.

Pravda yesterday again called for an end to the "fratricidal war" in Lebanon and reiterated Soviet support for the country's independence and territorial integrity. In line with recent Soviet propaganda, *Pravda* alluded to the "intrigues" of reactionary imperialist forces against Lebanon and warned against Israeli plans "backed by serious material preparations" to intervene in Lebanon.

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A settlement of the crisis along the lines worked out by President Franjiyah and Syrian President Asad would be to Moscow's liking. The Soviets would approve of the strengthening of the Lebanese left and the increased prestige accruing to the Palestinians and the Syrians. They would applaud the fact that Egyptian President Sadat has largely been excluded from mediating a settlement.

The Soviets may seek to take some credit if peace is achieved. Despite Moscow's restraint during the conflict, the Soviets could say that, unlike 1958, the shadow of their military power prevented the US from intervening.

Moscow has already sought to link the Lebanese turmoil to a need for a Middle East settlement via a resumed Geneva conference. *Pravda* yesterday went a step further when it implied that creation of a Palestinian state would enable "hundreds of thousands" of Palestinians to leave Lebanon.

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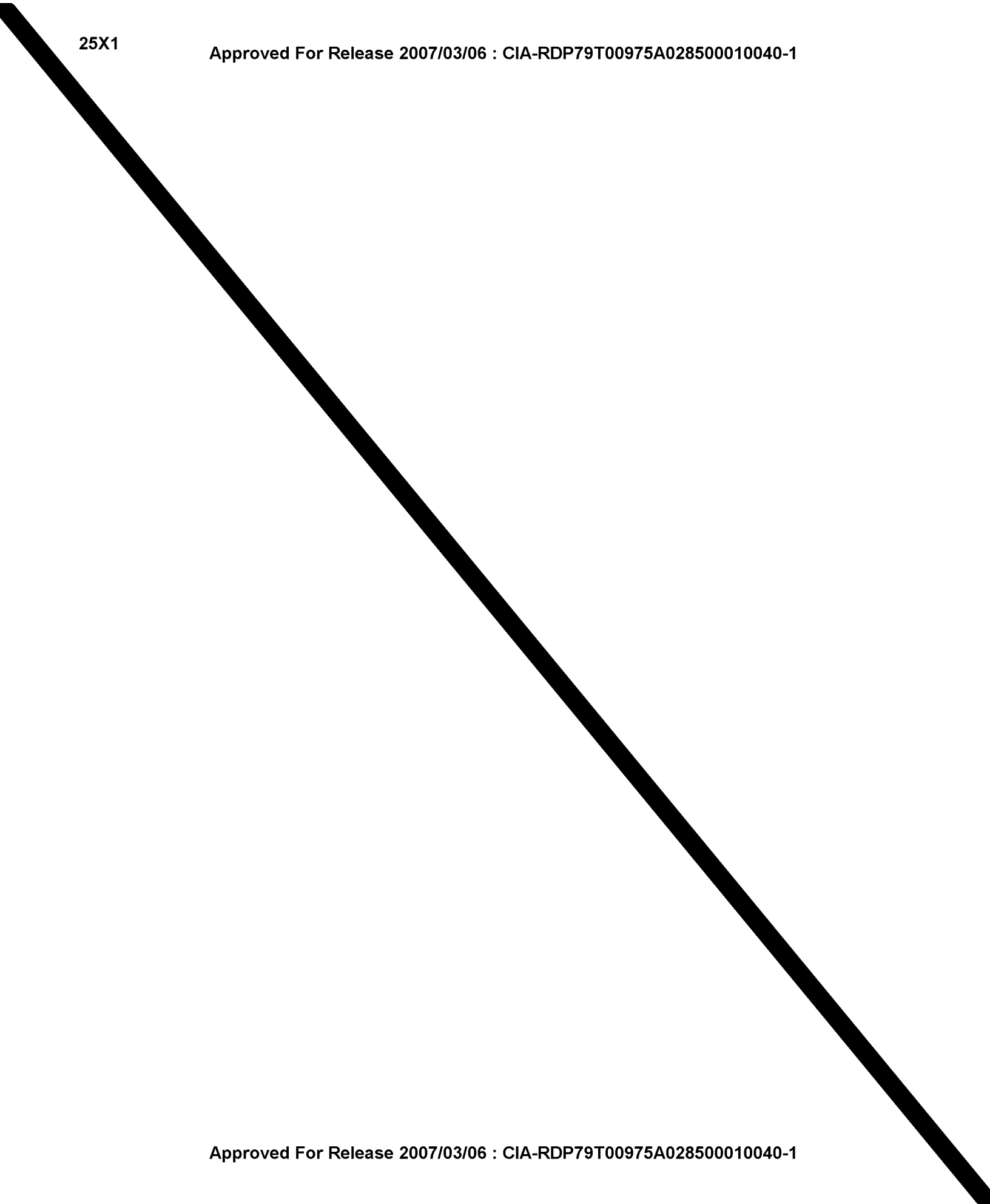

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PORTUGAL-AZORES

Recent concessions by the Portuguese government on Azorean autonomy appear to have further relaxed political tensions in the islands and to have strengthened local leaders who favor autonomy over independence.

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The junta will have the authority to establish its own regional planning body and to submit its own budget for approval in Lisbon. The revised law gives the junta a major voice in decisions affecting the Azores, but it specificially exempts from junta authority such governmental functions as monetary and fiscal policy, defense and security, and justice and foreign affairs.

The decree law is a temporary expedient to satisfy Azorean aspirations which will remain in effect until passage of a statute of autonomy for the Azores. This week the junta began revisions to a draft statute which will be forwarded to Lisbon for its approval. Acceptance by the Revolutionary Council will give the statute the force of law.

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Although tensions over the autonomy-independence question appear to be subsiding, there remains a possibility of discontent over economic issues. Serious shortages of meat and produce in Portugal, Azoreans fear, could soon have an impact on the local market, which up to now has largely been spared the economic dislocations affecting the mainland.

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WESTERN EUROPE

Socialist leaders from France, Italy, Spain, Portugal, and Belgium will meet in Paris this weekend to discuss a common strategy toward the Communist parties in their respective countries.

Given their different internal political situations, varying approaches to the problem are certain to be surfaced. The southern Socialists generally agree that French Socialist leader Mitterrand has used his alliance with the French Communist Party to good advantage to win Communist votes and advance his own chances in the next presidential election. No one is sure, however, that Mitterrand's tactics would work elsewhere.

In Italy, Socialist leader De Martino recognizes that his party is much weaker in relation to the Communist competition. He hopes to win votes in part by blaming the Communists for contributing to Italy's problems through their under-the-table cooperation with the ruling Christian Democrats. The Italian Socialists' position at the Paris meeting will be further complicated by the presence of the Italian Social Democrats, who want to minimize any governing role for the Communists.

The position of Spanish Socialists toward cooperation with the Communists is complicated by the fact that the Spanish government's expected liberalization of the political system is almost certain to exclude the Communists from any provision legalizing political parties. Consequently, Socialist leader Gonzalez will want to avoid an alliance with the Communists that would jeopardize his party's chances of being allowed to participate in future elections. Gonzalez wants to attend the Paris meeting to enhance his position in relation to rival Spanish Socialist leaders and to learn about the problems of competing with Communists.

Portuguese Socialists are cool toward Mitterrand's strategy of encouraging alliances with Communists. Portuguese party leaders evidently recognize, nevertheless, that southern Socialists have a mutual interest in discussing ways to meet stiff Communist competition for left-wing votes.

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The Belgian Socialists have no comparable Communist problem and may be attending the Paris conference only because of close personal ties between French-speaking Belgian Socialists and Mitterrand.

Mitterrand organized the first conference of southern Socialists last May to expound his views, to enhance his claim to leadership in the Mediterranean area, and to develop a counterweight to the northern European Socialists in the Socialist International.

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Although cooperation among left-wing parties will presumably occupy most of the leaders' time in Paris, the agenda also calls for discussion of:

--the role of Western Europe in international politics;

--European socialism in relation to the economic problems facing the West; and

--the defense and consolidation of democracy in Western Europe.

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NORWAY

Oslo has reacted strongly to what it regards as continuing Soviet encroachments on Norwegian sovereignty over Svalbard.

Norwegian Foreign Minister Frydenlund told the Soviet charge in Oslo on January 16 that he has taken steps that will allow the Soviets to remove the wives of Aerflot personnel stationed in the archipelago. The wives arrived on December 23 despite Norwegian objections and in contravention of the airport agreement that limits Aeroflot personnel to "five or six people." Under the agreement, only the Soviet airport station chief is authorized to be accompained by his wife.

The Norwegians have also denied accommodations to a large team of Soviet research workers that is scheduled to arrive this spring. According to Norwegian officials, the limited hotel accommodations on Svalbard must remain available for official purposes.

Although Norway is determined to assert its sovereignty over Svalbard, Oslo is hoping that provision of the airport agreement for settling disputes will allow the Soviets to yield without losing face. If preliminary efforts to resolve the issue fail, however, Norway will seek a domestic court ruling confirming Soviet violation of the accord. Norway could eventually declare the agreement invalid.

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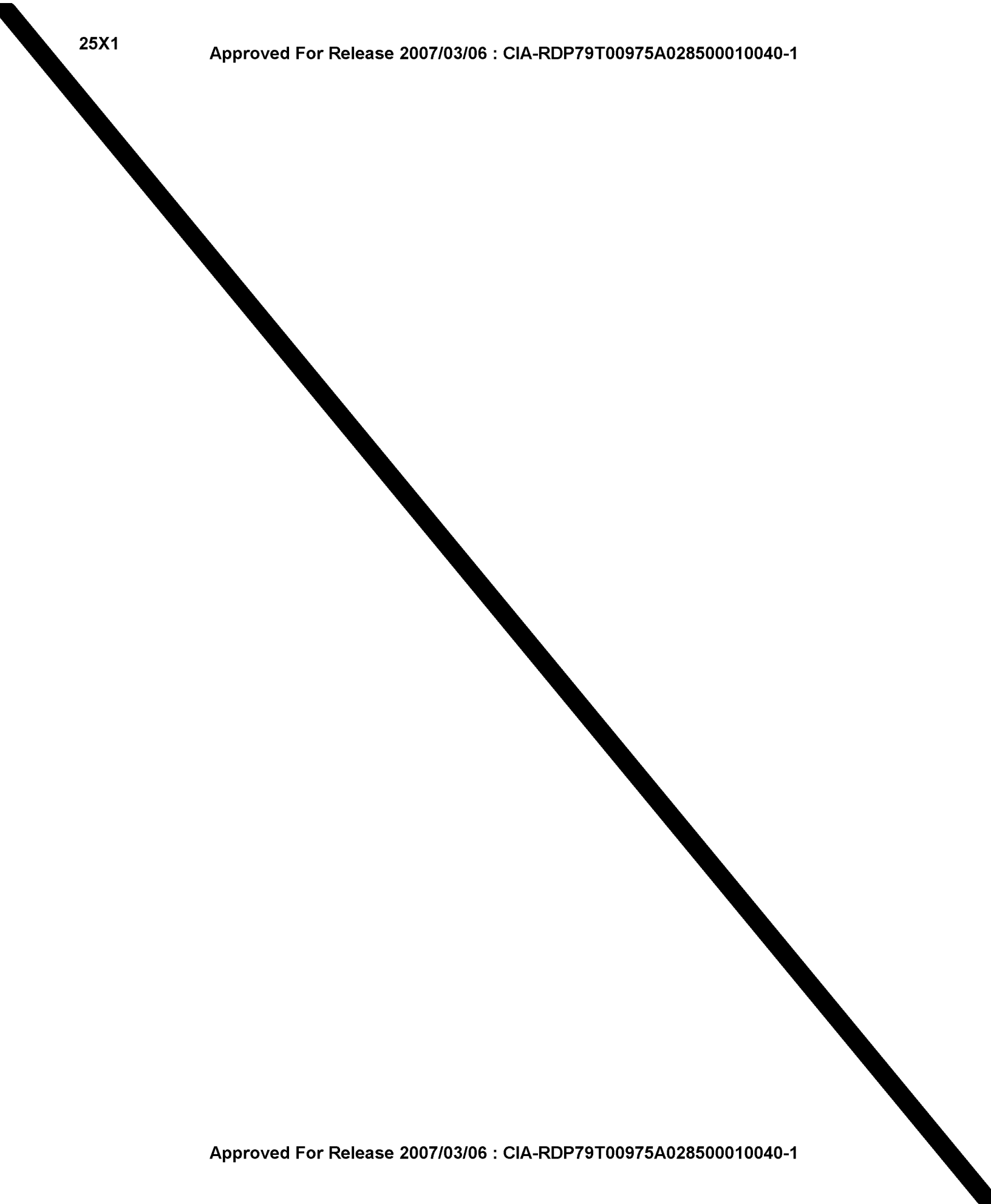

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SPAIN

Prime Minister Arias' plan to liberalize the Spanish political system hit a snag yesterday when the rightist-dominated Council of the Realm voted against a proposal to postpone for a year the parliamentary election scheduled for March 1.

The proposed delay was supposed to allow time for reforms that would make the parliament more representative. Without a postponement, a Franco-style parliament will continue for another four years.

The 17-man Council of the Realm is scheduled to meet again Monday, apparently to take another vote. King Juan Carlos and his ministers will undoubtedly be doing some arm-twisting over the weekend. Reports that some rightists on the Council had favored putting off the election for only a few months instead of a year indicate there may be room for a compromise.

A short delay might permit the government to liberalize its election laws, but still leave the right in a strong position because the left would have little time to organize and campaign.

If the Council cannot be persuaded to go along, the King and the cabinet might decide to issue a decree calling for the postponement. The constitution says merely that the Council "assists" the King in giving his approval to a cabinet-proposed decree. This vague wording could be interpreted as not requiring an affirmative vote.

Even if the government gets around the Council this time, it will undoubtedly encounter further rightist opposition in the Cortes where Arias is scheduled to unveil his program next Wednesday.

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ITALY

The lira continued to decline sharply in very light trading this week while Rome searched for funds to support further currency intervention. Yesterday the lira closed at 730 in London against the dollar, a decline of roughly 6 percent since Italy suspended support Wednesday morning.

Uncertainty over the level at which the lira will stabilize has lightened trading substantially and caused sharp fluctuations in quoted rates. On Wednesday the lira traded as low as 815 to the dollar in Zurich, more than 18 percent below Tuesday's rate. Despite the fluctuations, trading continues at a level adequate to prevent serious problems with foreign trade financing.

Rome is trying to arrange financing to support further intervention. The International Monetary Fund is being approached for $530 million which can be made available under the recently increased quota access. West German officials have offered to consider allowing Italy to redraw the $500 million repaid on its $2 billion gold-secured loan from Bonn. Rome also could request a drawing from the $2-$2.5 billion EC common borrowing facility.

The Italian press is playing up as a contributing factor in the lira crisis the recent disclosure of the US Comptroller of the Currency's report classifying US bank loans to Italy as risky. Rome may seek to use this as an argument to obtain more credit under its $3 billion short-term swap line with the US. Italy has already drawn $250 million against this credit line.

Even if Rome succeeds in arranging $1-$2 billion in new financing, the current problems with the lira will continue at least until the government crisis, which helped trigger the run on the lira, is resolved.

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LAOS-THAILAND

Still feeling the effects of the recent Thai blockade, the Lao communists appear to have agreed to hold talks with the Thai government. Following a recent meeting with a Lao government official visiting Bangkok, Thai Prime Minister Khukrit has announced that the Lao have agreed to establish a border committee, probably at the ministerial level.

The border was closed in mid-November after a serious border clash along the Mekong. The Thai made the first move in breaking the impasse by opening two points on the border on New Year's Day. The Thai appear eager for progress on Lao border issues, but the Lao have been extremely reluctant to start talks on any outstanding problems and it may be some time before a border committee is established.

The Lao government apparently has been sobered by the blockade's effects. The severe shortages of gasoline and other commodities probably demonstrated to Vientiane that it needs Thai transit routes and sources of supply to secure adequate quantities of goods and basic commodities.

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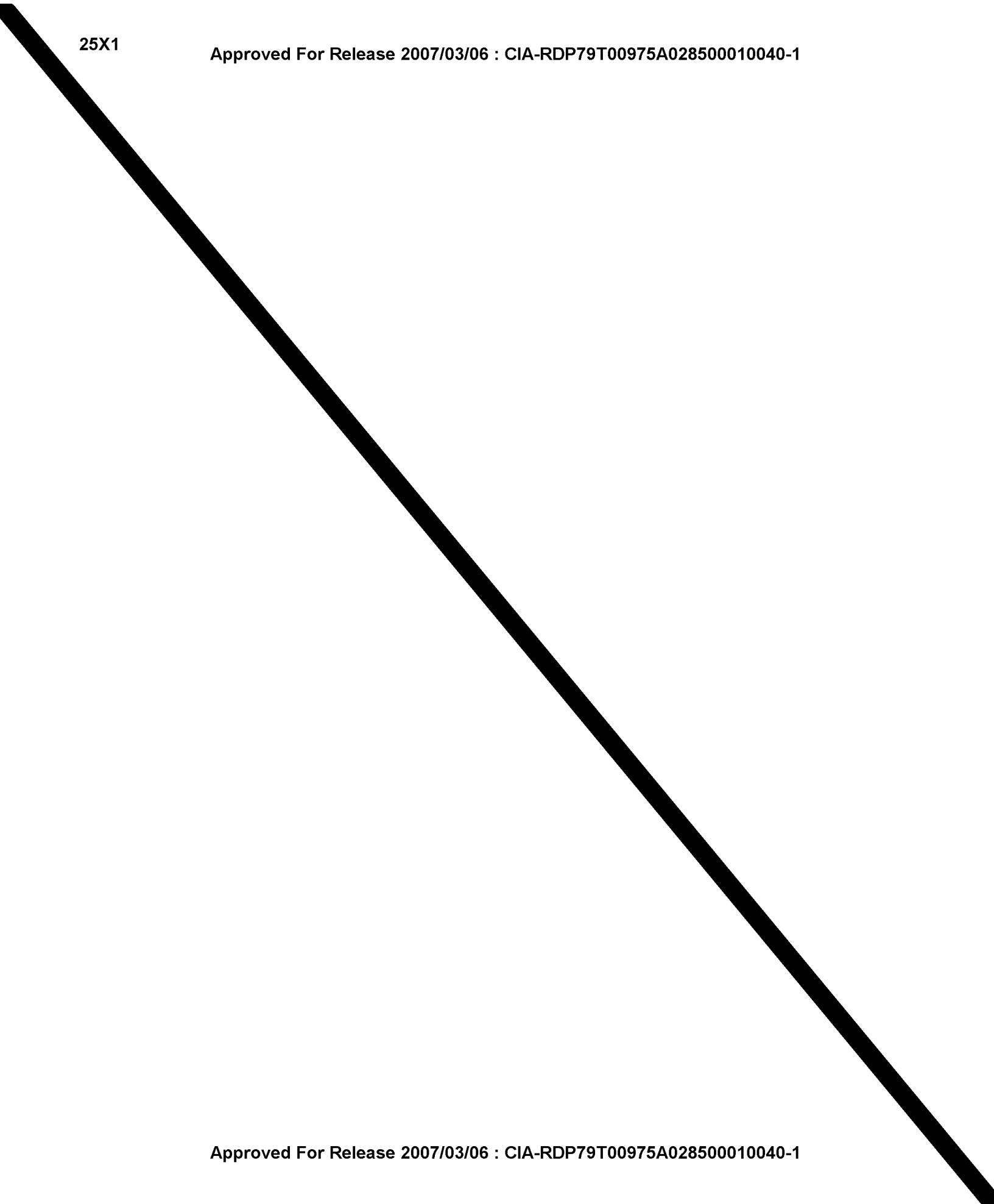

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CHINA-JAPAN: Peking has agreed to purchase 325,000 tons of urea and 160,000 tons of ammonium sulfate during the next six months, according to the Japanese press. The agreement failed to live up to the expectations of Japanese fertilizer producers, in terms either of the quantities involved—down a third—or the prices—down 20 percent. China almost certainly reduced purchases in anticipation of increased domestic output from imported urea plants that will begin production this year. A gradual reduction in purchases by China, the world's largest importer of nitrogen, will further depress the world fertilizer market. Producers in Europe and Japan already are operating facilities well below capacity and are accumulating surplus stocks.

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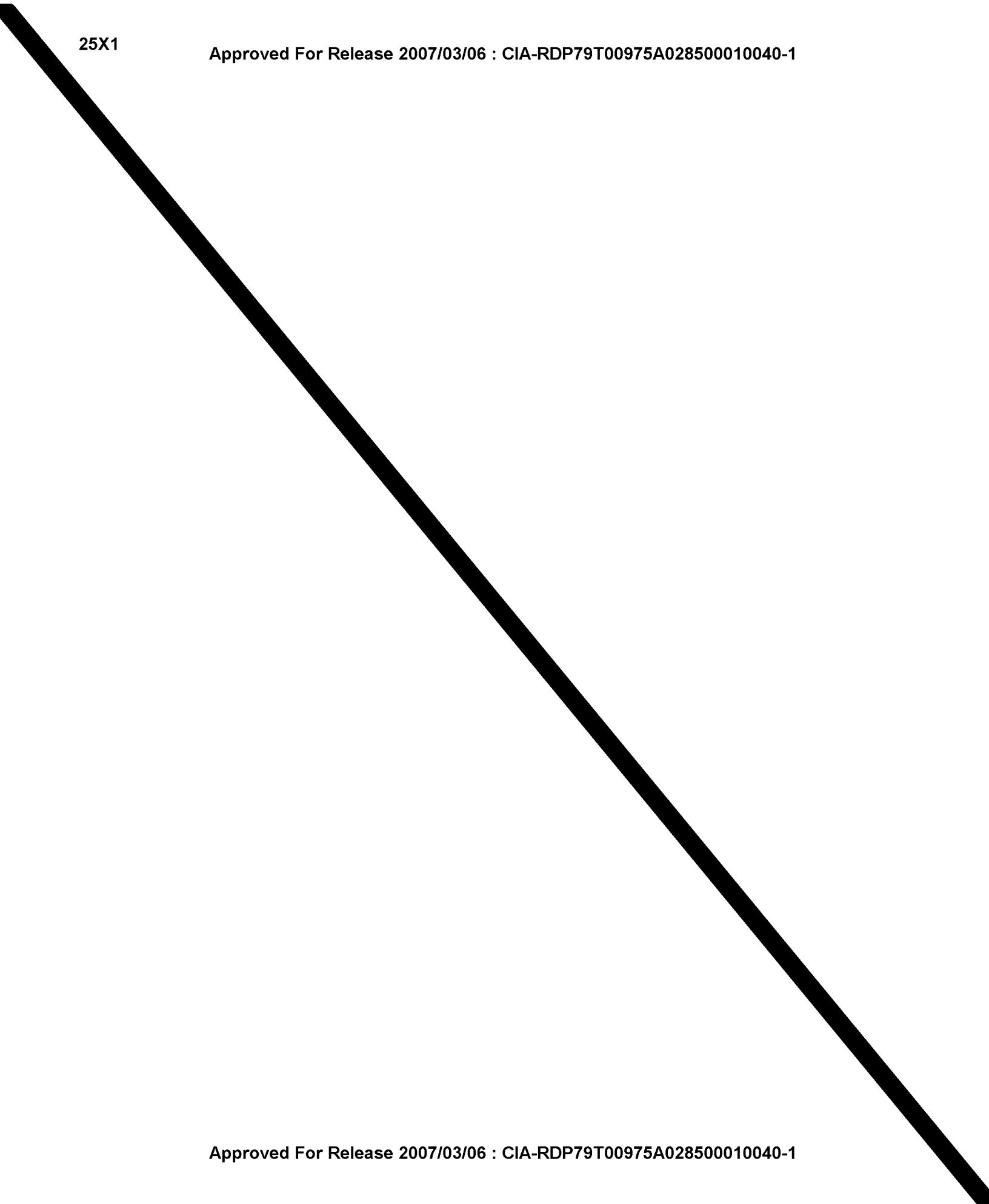

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